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CORRESPONDENCE MEMORANDUM

DATE: October 5, 2004
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: 2004 Participant Survey Results

At the May 11, 2004, Wisconsin Deferred Compensation (WDC) Board meeting, the Board asked staff to seek WDC participant input regarding improvements in the service and options available under the WDC program. Survey responses will help gauge participant knowledge and use of the current WDC features, interest in new investment options and potential use of online educational tools.

The survey was mailed to all 40,593 WDC participants in July 2004 as an insert in the WDC newsletter, *Money Talks*. It was also placed on the WDC Web site. Approximately 1.9% of WDC participants (768) completed the survey. An analysis of the survey results and the survey questions are included as attachments to this memo.

The 2004 WDC participant survey results offer the following points:

- 1) More WDC participants said they are enrolled in the asset allocation service offered by the WDC than actually use it.

This indicates that there is a core of WDC participants that are interested in the WDC's asset allocation service but need more education on how best to utilize this tool.

- 2) WDC participants are a varied group of people who rely on the Board to select and monitor the mix of funds offered by the WDC. (Over 28% of respondents indicated that they didn't know what mix of investment options they preferred, while 62% prefer a mix of options.)

This correlates with the results of the 2002 Cortex survey. The 2002 Cortex survey revealed that WDC participants can be categorized into three groups based on their knowledge of investment concepts: a group of high knowledge, high interest participants (24%); a group of average participants (53%), both in knowledge and in interest; and a group of participants (23%) that indicated that they had either slightly poor or extremely poor investment knowledge. This last group is just as interested as the other groups in making deferrals but lacks investment knowledge regarding where to put their funds.

- 3) The majority of survey respondents are aware of investment risk and consider their tolerance for it when selecting investment options.

Reviewed and approved by Pam Henning, Office of Strategic Services

Signature _____

Date _____

This result reinforces the first point, that participants interested enough in the WDC to respond to the 2004 survey are active investors using the tools provided by the plan. It also illustrates positively the work that the WDC and Nationwide Retirement Solutions staff have done regarding educating WDC participants on investments; most WDC participants are aware of investment risk and what can be done to reduce their risk exposure.

- 4) Lifestyle and lifecycle funds are of great interest to WDC participants. 36% of respondents said they would be very likely to use a lifestyle fund, and 30% said they would be very likely to use a lifecycle fund. Women are more likely to use these funds than men.

This answer suggests that while there is a group of participants that understand and use the WDC asset allocation service, there are other participants who are not utilizing the service, maybe because they don't understand it or perhaps find it too complicated.

- 5) Participants are interested in accessing and using customized online retirement tools. 48% said they would be very likely to use a tool such as this, and the majority said they would use the tool between two and ten times per year.

Recommendations

Based on the results of the 2004 participant survey, staff submits the following recommendations to the Board for consideration:

- Explore improvements in the WDC asset allocation service. Consider enhancing the existing education efforts and providing information on the asset allocation service on quarterly account statements of participants enrolled in the service.
- Request a report from staff regarding educational material (workshops, brochures, etc.) designed to reach underserved WDC participants as identified in both this and the 2002 Cortex survey (for example: female or lower income participants).
- Continue to review lifecycle funds for addition to the WDC. The Schwab Personal Choice Retirement Account option was added to help meet the needs of high knowledge, high interest participants. However, women and lower knowledge and interest participants would benefit from the inclusion of lifecycle funds in the WDC.
- Direct staff to review additional online investment tools that are available to determine if additional tools could be added to the WDC Web site.

I will be available at the Board meeting to discuss this memo and any questions you might have regarding the survey results.

Attachments: 2004 WDC Participant Survey Analysis
2004 WDC Participant Survey Questions

2004 WDC Participant Survey Analysis

This attachment discusses participant responses and evaluates this information in comparison to data gathered from previous surveys and WRS demographic data.

Respondent Demographics

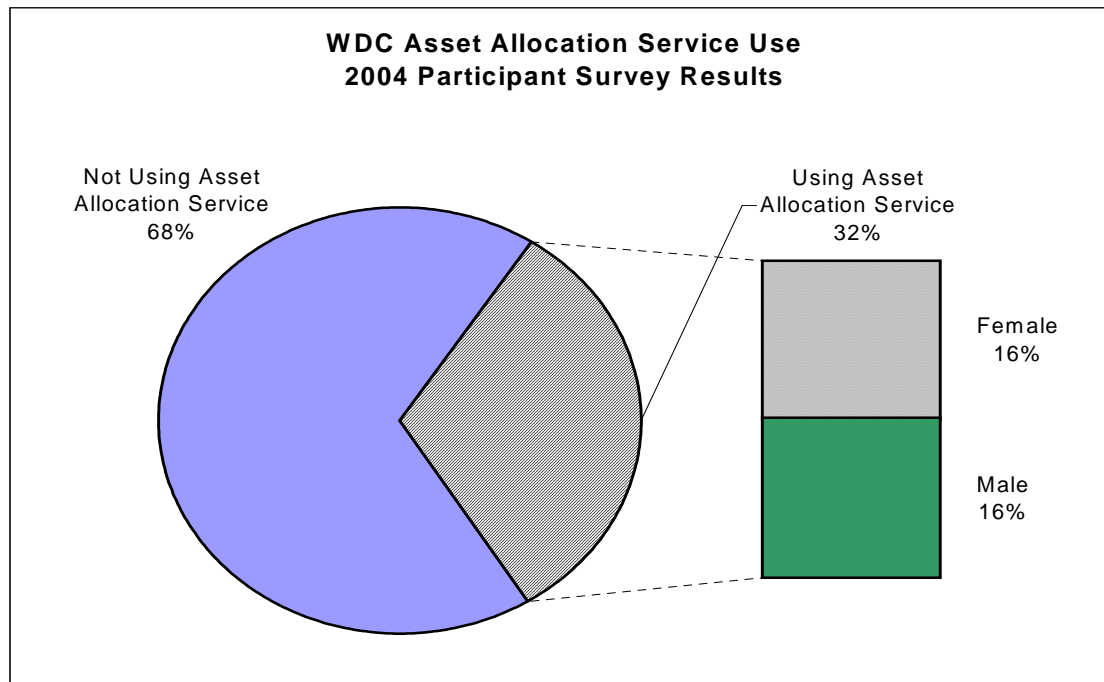
Approximately 1.9% of WDC participants (768) completed and returned the survey. The table below provides a breakdown of WDC participants responding to the survey by years in the WDC and by gender. The gender split of survey responses is similar to the actual split of WDC participants by gender. As of December 31, 2003, 52.3% of WDC participants were male and 47.7% were female.

Table One: Years in WDC

% of Total	Female	Years	Male	% of Total
10.0%	77	0-5 years	91	11.8%
9.9%	76	5-10 years	103	13.4%
8.5%	65	11-15 years	80	10.4%
13.4%	103	Over 15 years	158	20.6%
0.9%	7	Didn't know how many years	3	0.4%
42.7%	328	Total ¹	435	56.6%

Asset Allocation Service Use

The first survey question asked participants if they used the WDC asset allocation service.



The graph illustrates that a total of 245 of 768 survey respondents (31.9%) or 123 women and 122 men use the WDC asset allocation service. This is slightly higher than the actual

¹ Five survey respondents declined to indicate their gender.

percentage of WDC participants who use the asset allocation service, which as of December 31, 2003 is 20.3%.

The 32% using the asset allocation service is nearly evenly divided between men and women. When looking at use by gender, slightly more women (37.5% or 123 of 328 women) than men (28.0% or 122 of 435 men) use the asset allocation service.

Asset allocation usage by participants enrolled in the WDC for five or fewer years was much more likely than use by those with fifteen or more years of WDC participation. Forty-seven percent of respondents enrolled in the WDC for five or fewer years indicated they used the asset allocation service, while only 22% of those enrolled in the WDC for 15 or more years reported using it.

Investment Spectrum Preference

Question two asked participants to indicate their preference among the following investment spectrum options:

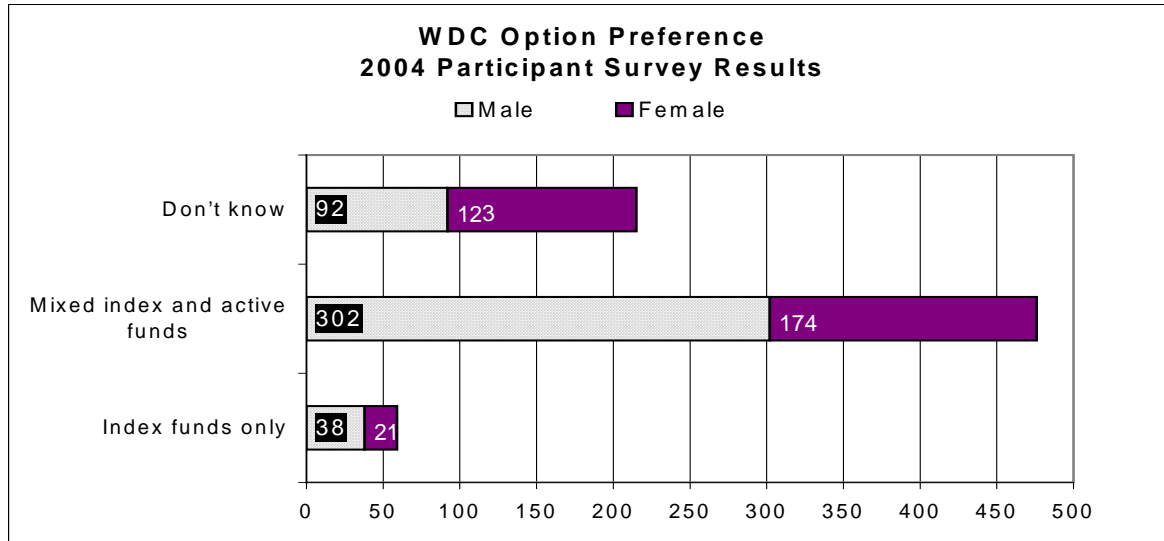
- ☐ A core consisting only of passively managed index funds² selected and monitored by the WDC Board with the ability to select actively managed funds³ on my own through the Schwab Personal Choice Retirement Account.
- ☐ A core consisting of a mix of active and passively managed funds selected and monitored by the WDC Board and the ability to select additional funds on my own through the Schwab Personal Choice Retirement Account
- ☐ Do Not Know/Not Sure

As the chart on the following page illustrates, the majority of respondents (62%) indicated that they prefer a mix of active and passively managed funds selected and monitored by the WDC Board. Only 8% indicated that they would prefer a core consisting only of passively managed index funds. Over 28% of participants (215) indicated that they didn't know what mix of investment options they would prefer.

² Passively managed index funds or "Tier 1" funds. In the WDC, these include funds such as the U.S. Debt Index Fund and the MidCap Equity Index Fund. In these funds, the manager attempts to correlate to or match performance to an index.

³ Actively managed funds or "Tier 2" funds. In the WDC, these include funds such as Fidelity ContraFund, Vanguard Wellington, etc. In these funds, the manager attempts to outperform a specific index identified with the style of the fund.

2004 WDC Participant Survey Analysis



Risk Tolerance When Selecting and Changing Investment Options

Questions three and four asked participants if they consider their risk tolerance when selecting investment options and when changing investments. The majority of respondents (89%) said they consider their risk tolerance when selecting investment funds.

Nearly 64% (491) said they always consider their risk tolerance when changing investment options, while 200 participants (26%) said they sometimes consider their risk tolerance when changing investment options.

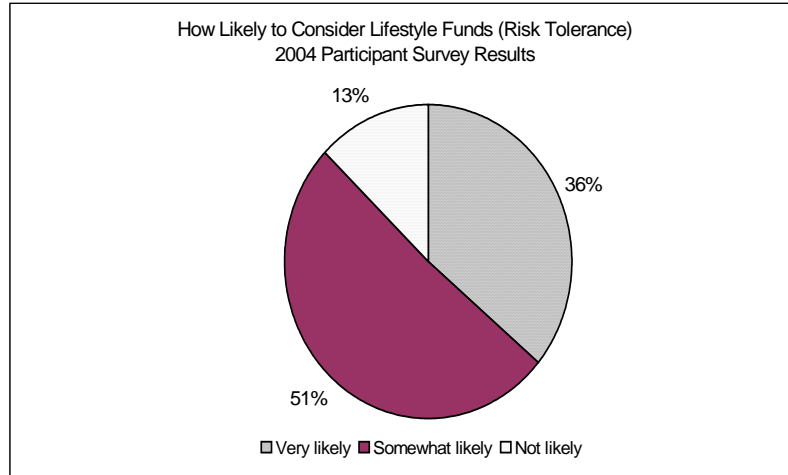
Interest in Lifestyle Funds

Question five asked participants to indicate their interest in lifestyle (risk tolerance) funds. Approximately 87% of WDC participants responded that they were “somewhat” or “very” interested in lifestyle funds. The breakout by gender was nearly equal, with 85% of women and 84% of men indicating an interest. Of the participants currently using the WDC asset allocation service, 88% indicated they were somewhat or very interested in lifestyle funds. Of those not using the asset allocation service, 56% (427 of 768) expressed interest in lifestyle funds. Table Two provides detail on lifestyle fund interest by gender and years in the WDC.

Interestingly, only 28.1% of respondents (216) that are in the current WDC asset allocation service indicated they were interested in lifestyle funds.

Table Two: Lifestyle (Risk Tolerance) Fund Interest						
Years in WDC	Female			Male		
	Very	Somewhat	Not	Very	Somewhat	Not
0-5	45.5%	46.8%	13.0%	35.2%	54.9%	8.8%
6-10	38.2%	51.3%	10.5%	33.0%	52.4%	13.6%
11-15	35.4%	56.9%	4.6%	36.3%	43.8%	20.0%
16+	35.0%	53.4%	11.7%	34.2%	50.6%	15.8%
Average	37.5%	50.9%	10.1%	34.3%	50.3%	14.5%

2004 WDC Participant Survey Analysis

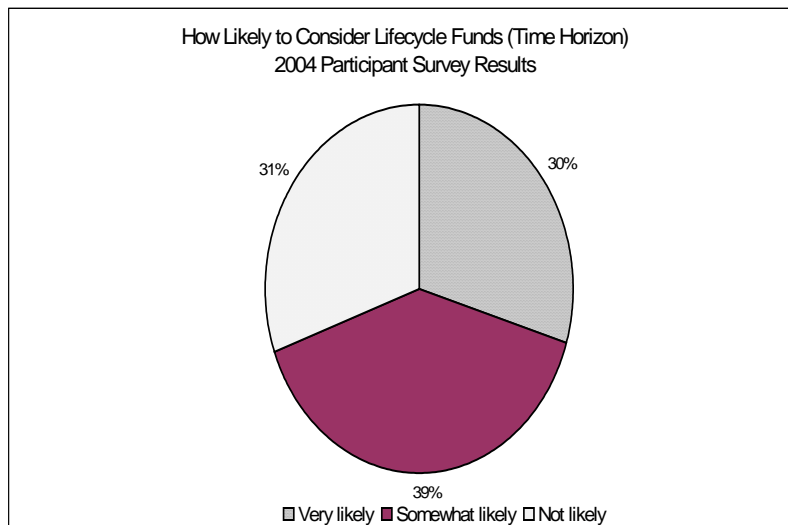


Interest in Lifecycle Funds

Question six asked participants to indicate their interest in lifecycle (time horizon) funds. Taken as a whole, 69% (534) of participants responded that they were “somewhat” or “very” interested in lifecycle funds. Women are more interested in lifecycle funds than men; 75% of women indicated they were “somewhat” or “very” interested in lifecycle funds versus 64% of men.

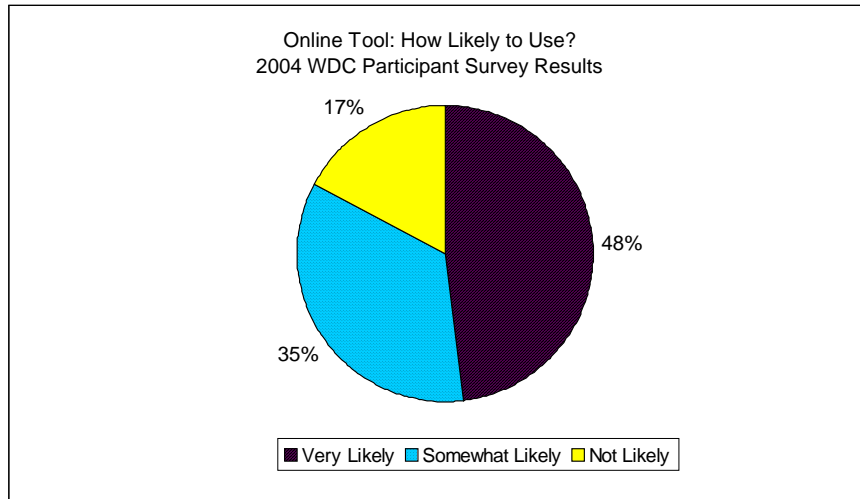
80% of participants currently using the asset allocation (196 of 245) responded that they were “somewhat” or “very” interested in lifecycle funds.

Table Three: Lifecycle (Time Horizon) Fund Interest						
Years in WDC	Female			Male		
	Very	Somewhat	Not	Very	Somewhat	Not
0-5	46.8%	32.5%	16.9%	31.9%	44.0%	24.2%
6-10	40.8%	42.1%	14.5%	26.2%	50.5%	23.3%
11-15	44.6%	41.5%	12.3%	21.3%	37.5%	42.5%
16+	24.3%	41.7%	32.0%	21.5%	36.1%	57.6%
Average	36.9%	38.7%	19.8%	24.6%	41.1%	39.3%



Online Tool Interest

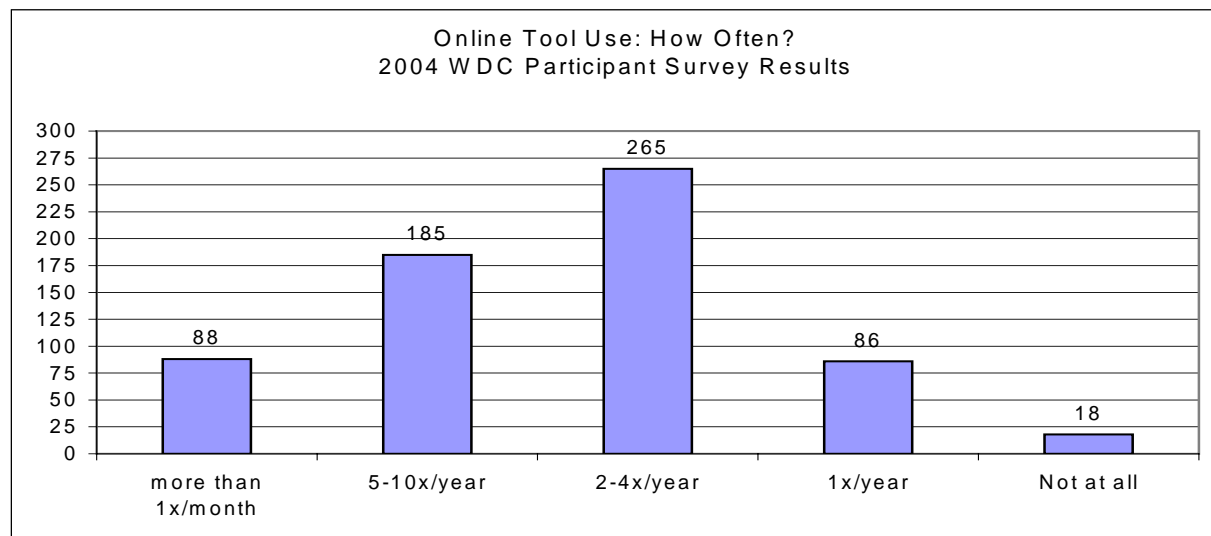
Question seven asked participants to express their interest in using a tailored online tool. A customized tool could include investment research, investment education, asset allocation guidance and information all tailored to meet individual participant financial goals.



Over 80% (615) of respondents indicated that they would be “very likely” or “somewhat likely” to use such a tool. Men were slightly more interested than women: 216 men (49.7%) indicated they would be “very likely” to use the tool compared to 141 women (43.0%).

Online Tool Use

Question eight asked participants to indicate how often they would use an online tool. As illustrated by the graph on the next page, many participants are quite interested in using a customized online tool. Over 11% said they would use a tailored tool more than once a month; 24.1% said they would use it between five and ten times per year, and 34.5% said they would use it between two and four times per year.



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